

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7430**

**BILL NUMBER: SB 327**

**DATE PREPARED:** Feb 16, 2001

**BILL AMENDED:**

**SUBJECT:** Apportionment of Income for Tax Purposes.

**FISCAL ANALYST:** Diane Powers

**PHONE NUMBER:** 232-9853

**FUNDS AFFECTED:** X

X

**GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill provides that for purposes of the Indiana adjusted gross income tax, business income is apportioned based on the sales factor. The bill eliminates the property factor and payroll factor that are currently also used in apportioning income. The bill provides that gross receipts from the sale of tangible personal property by a taxpayer may not be attributed to Indiana solely because the property is shipped from Indiana and the gross receipts are not taxable in any other state.

**Effective Date:** January 1, 2002.

**Explanation of State Expenditures:** The Department of State Revenue will have additional administrative expenses in revising tax forms, instructions, and computer programs to accommodate this change.

**Explanation of State Revenues:** Under the current statute, a company that conducts business in other states uses a three-factor formula to determine their Indiana corporate adjusted gross income and supplemental net income tax liability. The formula utilizes property, payroll and sales to allocate business income to the state. The current formula is the following:

$$\frac{\text{Indiana Property}}{\text{Total Property}} + \frac{\text{Indiana Payroll}}{\text{Total Payroll}} + \frac{2 (\text{Indiana Sales})}{(\text{Total Sales})}$$

This bill would eliminate the property and payroll factors in the apportionment formula along with the double weighting of the sales factor. The amount of a company's adjusted gross income would be determined by a single-factor formula which measures the percentage of Indiana sales to their total sales. The new formula would be the following:

$$\frac{\text{Indiana Sales}}{\text{Total Sales}}$$

Using a sample of 1998 corporate income tax returns, it was estimated that the change in the apportionment

formula, as proposed by this bill, would decrease tax liabilities by 12.4%. This bill is effective for tax year beginning January 1, 2002, and would impact revenue collections starting in FY 2002 due to adjustments in estimated quarterly payments. Based on the December 19, 2000, revenue forecast, this change in the apportionment formula could reduce revenue collections by \$116.4 M in FY 2003.

This bill also provides that gross receipts from the sale of tangible personal property by a taxpayer may not be attributed to Indiana solely because the property is shipped from Indiana and the gross receipts are not taxable in any other state. This provision will also reduce the corporate income tax base by an indeterminable amount.

Corporate income taxes are deposited in the General Fund and the Property Tax Relief Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Department of State Revenue.